

FORM 51-102F3

MATERIAL CHANGE REPORT

Item 1. Name and Address of Company

Chrysalis Capital Corporation
Suite 300, 2345 Yonge Street
Toronto, ON M4P 2E5

Item 2. Date of Material Change

December 8, 2004

Item 3. News Release

A press release was disseminated on January 14, 2005 via Canada Newswire.

Item 4. Summary of Material Change

Chrysalis Capital Corporation ("Chrysalis") has entered into a letter of intent dated December 8, 2004 with PharmEng Technology Inc. ("PharmEng") and its principal shareholder which provides for the acquisition by Chrysalis of all of the shares of PharmEng.

Item 5. Full Description of Material Change

Chrysalis, PharmEng and the principal shareholder of PharmEng have entered into a letter of intent pursuant to which Chrysalis has agreed to acquire (the "Proposed Transaction") all of the issued and outstanding shares of PharmEng by issuing one common share of Chrysalis (a "Chrysalis Share") at a deemed price of \$0.45 per share in consideration for each common share of PharmEng (a "PharmEng Share") and by issuing one Chrysalis share purchase warrant in exchange for each outstanding PharmEng share purchase warrant for aggregate deemed consideration of \$12,500,000. The Proposed Transaction is expected to constitute Chrysalis' Qualifying Transaction as defined in Policy 2.4 of the TSX Venture Exchange Inc. ("TSXV").

ABOUT PHARMENG –

PharmEng Technology Inc. is a full service consulting and manufacturing company serving the pharmaceutical and allied industries. PharmEng is a private company incorporated under the laws of Ontario which is controlled by Mr. Alan Kwong of Markham, Ontario.

The full range of professional services and expertise provided by PharmEng include project management, engineering, cGMP and validation, product development, calibration services, training and regulatory compliance. The business has grown from one employee to over 70 employees and revenues have grown from \$116,000 in 1997 to \$4,887,044 in 2003 and \$4,415,680 for the nine months ending September 2004.

Through the April 2004 acquisition of Pendopharm's assets in Perth, Ontario, PharmEng (through its wholly owned manufacturing subsidiary Keata Pharma Inc. ("Keata")) will provide contract pharmaceutical support services, including formulation development contract, laboratory testing and manufacturing. Keata has recently arranged project financing with the Cape Breton Growth Fund to be used to construct and operate a second manufacturing facility in North Sydney, Nova Scotia.

KEY BUSINESS HIGHLIGHTS –

- **Strong growth in 2003** - 26% annual growth in revenue to \$4,887,044 and a 60% increase in net income to \$221,861.
- **Continued strong financial performance in 2004** – Revenue for the first nine months is up 23% to \$4,415,680 with net income of \$193,978.
- **Structured a \$10.4 million financial package (interest free loans and grants) for a new manufacturing facility** - In participation with the government, Keata (PharmEng's manufacturing subsidiary) has received a funding package for the construction and operation of a manufacturing facility in Cape Breton.
 - \$ 6.25 million in non-interest bearing loans for the manufacturing facility, equipment and working capital provided by Cape Breton Growth Fund and its sister federal agency, Enterprise Cape Breton Corporation
 - \$ 500,000 in a non-repayable grant to PharmEng as compensation for conducting the BPTP (Biotechnology and Pharmaceutical Technology) course at the University College of Cape Breton
 - \$ 3.6 million in payroll rebate ceiling from the NSBI (Nova Scotia Business Inc.) commencing July 1st, 2005 for a period of five years (the exact amount will depend on the number of jobs created in Nova Scotia)
- **Financing Recently Completed** - PharmEng closed a private placement on December 13, 2004 of 1,111,112 units at a price of \$0.45 per unit, each consisting of one PharmEng Share and one PharmEng share purchase warrant exercisable at a price of \$0.60 per share for a period of 18 months from closing, for gross proceeds of \$500,000.
- **Demonstrated its global competitiveness** - Through prior projects execution experience in USA, Pakistan, Taiwan and Kenya. In 2004, PharmEng won two projects with the NHRI/CDC (National Health Research Institute/Centre for Disease Control) in Taiwan and ILRI (International Livestock Research Institute) in Kenya. The two projects are worth over \$3 million from 2004-2006.
- **Expanded its successful certification program** - In 2003, PharmEng initiated the Pharmaceutical and Biotechnology Certificate Program at the University of Toronto. Alan Kwong is currently the Program Director of the program. PharmEng will start another training program with the UCCB (University College of Cape Breton) in April 2005. In November 2004, the University of Toronto signed a Memorandum of Understanding with the National Tsing Hua University (the number three ranked university in Taiwan) to start a pharmaceutical and biotechnology training program in 2005. Alan Kwong is nominated the Program Director and PharmEng is the principal sponsor for the program.

ADDITIONAL FINANCING -

The Proposed Transaction will be completed after giving effect to a non-brokered equity offering by PharmEng (the "PharmEng Financing") of up to 2,222,223 PharmEng units at a price of \$0.45 per unit, each unit consisting of one PharmEng Share and one PharmEng share

purchase warrant exercisable at a price of \$0.60 per share for a period of 18 months from closing, for gross proceeds of up to \$1,000,000. The net proceeds of the PharmEng Financing will be used for the Cape Breton facility and general working capital. Completion of the Proposed Transaction is not conditional on any minimum level of funds being raised pursuant to the PharmEng Financing.

In addition, 555,556 PharmEng units will be issued to a creditor of PharmEng at a deemed price of \$0.45 per unit in settlement of indebtedness owed by PharmEng in the amount of \$250,000 (the "Debt Settlement"). PharmEng Shares and PharmEng share purchase warrants issued pursuant to the PharmEng Financing and Debt Settlement will be subject to the offer to be made by Chrysalis and may be exchanged for Chrysalis Shares and Chrysalis share purchase warrants pursuant to the terms of the Proposed Transaction.

SELCTED FINANCIAL INFORMATION -

	<u>PharmEng</u> <u>For the 9 month period ended</u> <u>September 30, 2004</u> (unaudited)	<u>Chrysalis</u> <u>For the 9 month period</u> <u>ended September 30, 2004</u> (unaudited)
Current Assets	\$1,433,327	\$1,080,390
Total Assets	2,263,811	1,080,390
Current Liabilities	1,586,001	13,419
Total Liabilities	1,586,001	13,419
Revenue	\$4,415,680	\$9,122
Net Income	\$193,978	\$26,526
Working Capital	(\$152,647)	\$1,066,971

There are currently 27,777,779 PharmEng Shares and 7,500,000 Chrysalis Shares issued and outstanding. Upon completion of the Proposed Transaction, including the Debt Settlement, the resulting issuer will have 35,833,334 common shares and 1,666,668 warrants outstanding without giving effect to the PharmEng Financing and 38,055,557 common shares and 3,888,891 warrants outstanding assuming completion of the maximum PharmEng Financing. It is anticipated that upon completion of the Proposed Transaction, the resulting issuer will meet the Tier 1 listing requirements of the TSXV for an industrial issuer.

NEW BOARD OF DIRECTORS -

In conjunction with the completion of the Proposed Transaction, it is intended that both Marc Lavine and Geoffrey Rotstein will remain on the Board. The board of the resulting issuer will consist of Alan Kwong, Bernard Boudreau, Marc Lavine and Geoffrey Rotstein. Brief biographies for the proposed nominees are as follows:

Alan Kwong - P.Eng., M.Sc., M.B.A.

Chief Executive Officer – President and Director

Alan Kwong is currently the President and Managing Director of PharmEng Technology Inc, with responsibility for the management of business development, operations and strategic planning. Alan has twenty years of work experience in the biotechnology and pharmaceutical industry. Alan is currently the Program Director for the Biotechnological and

Pharmaceutical Technology Certificate Program at the University of Toronto. Alan's corporate experience prior to PharmEng include Senior Manager, Technical Operations, Taro Pharmaceuticals, New York (1995-1997); Validation Consultant at John Brown Engineering & Contractors, Chicago (1994-1995); Manager, Validation Services, Nu-Pharm Inc. (1993-1994), Validation Co-ordinator, Purdue Frederick Inc., Toronto (1989-1993); Validation Specialist, Glaxo Canada Inc. Toronto (1988-1989); Research Associate, Connaught Laboratories Ltd (1986-1988), Research Associate, Ontario Cancer Institute (1985-1986). Alan received his B.Sc. in Chemical Engineering from the University of Michigan and his M.Sc. in Chemical Engineering and MBA from the University of Toronto.

The Honourable J. Bernard Boudreau, PC, QC
Vice President, Corporate Development and Director

Mr. Boudreau has a distinguished record as a lawyer, businessman and public figure. From 1975 to 1988 he founded and served as the senior partner of the Nova Scotia law firm of Boudreau Beaton & LeFosse. During the latter five years of his practice, Mr. Boudreau specialized in labor law, and was appointed as Queen's Counsel in 1985. Mr. Boudreau was first elected to the provincial legislature of Nova Scotia in 1988, where he served as Chair of the Public Accounts Committee and opposition critic for Finance and Economic Development. In 1993 he was appointed to several senior cabinet positions that included Minister of Finance, Minister of Health, Chair of the Cabinet Priorities and Planning Committee and Minister responsible for the Nova Scotia Liquor Licensing Act, the Nova Scotia Lottery Commission and the Nova Scotia Power Finance Corporation Act. Mr. Boudreau returned to the private sector in 1997 in order to accept the positions of Counsel to the Atlantic Canadian law firm of McInnis Cooper, and Vice-President, MedCan Health Management Inc. In 1998, he was appointed a Director of the Bank of Canada. In 1999, Mr. Boudreau was appointed by the Prime Minister of Canada to the positions of Leader of the Government in the Senate of Canada, and the federal Minister responsible for Nova Scotia. As a Member of the Privy Council of Canada, his Cabinet responsibilities included the following: Member, Economic Union Cabinet Committee; Member, Special Committee of the Executive Council; Member, Treasury Board; and Chair, Special Cabinet Committee on Health Care Reform. To these duties the position of Minister of State, Atlantic Canada Opportunities Agency (ACOA) was added in October, 2000. In 2001, Mr. Boudreau was appointed a Director of Export Development Canada ("EDC"). Since February 2001 he has acted as President of Radcliffe Consulting and Investment Ltd., Halifax, N.S.

Marc Lavine
Director

Marc Lavine of Paris, France brings entrepreneurial expertise and direct experience with the capital pool company ("CPC") program. In the past eight years, Mr. Lavine has been involved in the creation of two companies and then led the process for their subsequent public listing through the Junior Capital Pool Company ("JCP") program (the predecessor to the CPC program). Both of those companies, Points International Ltd. ("Points International") and Cyberplex Inc. ("Cyberplex"), are currently trading on the Toronto Stock Exchange. Mr. Lavine is currently a director and Vice-Chairman of Points International (formerly Exclamation International Incorporated ("Exclamation")). As founder of Exclamation, Mr. Lavine served as the Chairman and Chief Executive Officer from its inception in June 1999 until February 2002. Mr. Lavine set the strategic direction of Exclamation, as well as the idea generation and initial creation of its business ventures, including Points International. Mr. Lavine also assisted in the operations and financing of Exclamation, including its public listing in January, 2000. Prior to joining Exclamation, Mr. Lavine worked as the Vice-President of Cyberplex from January 1995 to December 1997. As Vice-President of Cyberplex, Mr. Lavine focused on developing strategies for Internet based

businesses and led the public listing of Cyberplex. Mr. Lavine's prior experiences include two years as a management consultant at McKinsey & Company, a consulting firm, from September 1991 to August 1993, where he advised senior managers of Canadian corporations on a wide variety of strategic issues. Mr. Lavine holds an Honours degree in Business Administration from the Richard Ivey School of Business at the University of Western Ontario (1991) where he received the gold medal for top student in his class. Mr. Lavine is 36 years of age

Geoffrey Rotstein

Director, Chairman of the Audit Committee

Geoffrey Rotstein of Toronto, Ontario brings over 10 years of financial expertise in addition to direct experience with the CPC process based on his role as Chief Financial Officer of Cyberplex, a TSX listed public company. From March 1997 to present, Mr. Rotstein has been the Chief Financial Officer of Cyberplex and its predecessor companies. Mr. Rotstein is responsible for developing and implementing financial controls, budgets and management policies for Cyberplex, as well as maintaining close interaction with shareholders, investment advisors and analysts as part of his overall responsibility for the for investor relations, and corporate development activity. Mr. Rotstein co-lead the process for Cyberplex in achieving its public listing through the JCP process. From June 1999 to November 1999, Mr. Rotstein also acted as Chief Financial Officer of Exclamation where he was involved in the company's creation and initial financing. From September 1992 to February 1997, Mr. Rotstein worked as a Chartered Accountant at Coopers & Lybrand in Toronto, a major global accounting firm.

Mr. Rotstein received his C.A. designation in 1996 and received his MBA degree from the Schulich School of Business at York University of Toronto in 1992. Mr. Rotstein is 36 years of age.

STRONG TEAM –

In addition to the Board of Directors, PharmEng has a strong team of over 70 employees including –

- Ravi Joshi - Formerly Director of Technical Services, Production and Technical Services, Pharma Development with Novartis and Sandoz
- David Leung - Formerly VP of Regulatory Affairs and QA at Pharmacia & Upjohn
- Zaheer Abassi - Formerly Director of Development, Technical Services and Production at Axcan Pharma
- Ben Lee - Formerly Project Director of the construction of the \$23 million Winnipeg Blood Centre
- Rahman Roustia - Formerly VP, Operations with Activepharm Inc. in Nova Scotia

Chrysalis has reserved a price of \$0.45 per share for the Chrysalis Shares to be issued pursuant to the Proposed Transaction. Chrysalis also announces that it has reserved a price of \$0.45 per share for the grant of options to acquire up to that number of Chrysalis Shares equal to 5% of the issued and outstanding Chrysalis Shares ("Resulting Issuer Options") in the event that the Proposed Transaction is completed. The grant of the Resulting Issuer Options is subject to regulatory approval and Chrysalis is required to file a formal application with the TSXV to maintain this price reservation.

The Filing Statement to be prepared and filed on SEDAR in conjunction with the Proposed Transaction will contain complete biographical information on each proposed nominee.

The Proposed Transaction will be an arm's length transaction, as the directors and officers of Chrysalis have no ownership or other interest in PharmEng. As a result, completion of the Proposed Transaction is not subject to Chrysalis shareholder approval.

Research Capital Corporation, subject to completion of satisfactory due diligence, has agreed to act as sponsor in connection with the Proposed Transaction. An agreement to sponsor should not be construed as any assurance with respect to the merits of the Proposed Transaction or the likelihood of completion.

Completion of the Proposed Transaction is subject to a number of conditions, including but not limited to, satisfactory due diligence reviews, negotiation and execution of definitive transaction documentation, approval by both boards of directors, availability of prospectus and registration exemptions or obtaining exemptive relief, obtaining any necessary governmental and third party approvals and TSXV acceptance. There can be no assurance that the Proposed Transaction will be completed as proposed or at all.

Item 6. Reliance on Section 7.1(2) or (3) of National Instrument 51-102

Not Applicable

Item 7. Omitted Information

Not Applicable

Item 8. Executive Officer

Marc Lavine, Chief Executive Officer and Chairman, Telephone: (416) 352-5763

Item 9. Date of Report

January 17, 2005